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SUBJECT: SOUTH AFRICA: OFFICIALS OUTLINE POSITIONS ON WTO
AGRICULTURE NEGOTIATIONS

11. (U) Summary: At a roundtable on WTO agricultural negotiations on November 16, Chief Negotiator Xavier Carim and National Department of Agriculture Deputy Director Gunter Muller discussed a number of South African positions and views. In particular, they discussed market access, subsidies, special and sensitive products, preference erosion, food aid, and special and differential treatment. Both Carim and Muller roundly criticized the EU's proposal on agriculture, but also criticized the U.S. proposal for allowing the United States to increase total agricultural subsidies above current levels. Carim claimed that the G-20 proposal represented the "middle ground" in WTO negotiations on agriculture, and the "closest approximation of what could actually be done." Carim thought that high-level political intervention was needed to move negotiations forward, and generally tried to lower expectations for the Hong Kong Ministerial in December. End Summary.

12. (U) At a roundtable on WTO agricultural issues sponsored by the Southern African Institute for International Affairs (SAIIA) and Oxfam America, Chief Director for Multilateral Trade Xavier Carim and the National Department of Agriculture's Deputy Director for International Trade Gunter Muller shed some light on South African thinking. Others participants included President of AgriSA (a federation of agricultural trade associations) Hans van der Merwe, President of the South African Sugar Association Johann van der Merwe, and SAIIA researcher Catherine Grant.

Summary of South African Positions

13. (U) Xavier Carim looked on as Catherine Grant summarized South Africa's positions on WTO negotiations on agriculture. On market access, Grant said that South Africa supported the concept of "proportionality," or special and differential treatment. She said that South Africa was focused on removing tariff peaks and escalations. In general, South Africa was "not keen" on the designation of special products, and wanted to place limits on the designation of sensitive products. She said that trade preferences and preference erosion was a difficult issue for South Africa, especially as a member of the African Group, within which a number of countries greatly depended upon a few products, such as sugar and bananas.

14. (U) On subsidies, Grant said that South Africa sought substantial reductions in the real level of trade distorting subsidies, greater disciplines on domestic subsidies to avoid "box switching," and special and differential treatment for developing countries.

15. (U) On export subsidies, Grant said that South Africa wanted to see the elimination of all export subsidies in five years -- to be front loaded as much as possible. Food aid was a key issue for the Africa Group, but at this time South Africa had no clear position on whether aid should only be in the form of cash grants. South Africa wanted greater controls on developed country state trading enterprises, such as those in Australia, New Zealand, and Canada.

16. (U) In summarizing stakeholder views, Grant said that she believed that the private sector and labor generally supported government positions, especially when it came to export subsidies. Nevertheless, some farmers sought specific tariff protections, and in policy circles there was concern about how to go about protecting smallholders and advancing land reform in the face of market liberalization.

17. (U) Xavier Carim then clarified a few things. He explained that the driving force behind South Africa's positions in the WTO was to achieve a development outcome. In this vein, Carim characterized South African trade policy as a central element within South African foreign policy rather than a competing force with foreign policy -- thus the emphasis on advancing south-south trade. He said that South African views fed into SACU, SADC, Africa Group positions, as well as the Cairns Group, the G-20, and the G-90. In the case of SACU, South Africa had to forge common positions on external tariffs, agricultural access, as well as non agricultural market access, safeguards, and sensitive

products.

18. (U) Carim summarized a recent meeting of the National Executive Council of the African National Congress (the ruling party), where Trade and Industry Minister Mandisi Mpahlwa outlined South Africa's WTO positions. They included achieving market access in agriculture, removing imbalances caused by trade distorting subsidies, obtaining greater market access for industrial goods, and assuring that developing country commitments were commensurate with their capacity to make them.

Preference Erosion -----

19. (U) Carim noted that all bilateral, regional, and multilateral trade agreements all fed into gradual trade preference erosion. For many developing countries, this was a serious issue. South Africa felt that compensation was needed to cover ensuing adjustment costs and proper supply side management. He thought there was growing support for this approach. Carim added that Mpahlwa embraced the notion of "Aid for Trade" programs to compensate for preference erosion.

Special and Sensitive Products -----

10. (U) On special and sensitive products, Carim said that South Africa realized that special products were important to a number of developing countries for food security and rural development. As for sensitive products, South Africa agreed with the United States and the G-20 that the EU's request for an 8% cap on the number of line items subject to this designation was too high; rather, it should be 1%.

Food Aid -----

11. (U) On food aid, Carim confessed that South Africa did not have a well-defined approach at this time. Gunter Muller later elaborated by saying that "no one wanted to limit emergency food aid." South Africa's "focus was on preventing commercial displacement and preserving production capacity in the countries and/or regions of need. Muller noted that the SADC position was that food aid should be untied and in the form of grants. At same time, he acknowledged that South Africa's position was changing in that it, too, was generating a surplus that could be used for food aid. More research was needed to find the best way forward. Comment: In 2003, South Africa donated R170 million to the World Food Program (WFP), primarily to purchase maize for Zimbabwe. When the WFP sourced the maize from Zambia rather than South Africa, South African farmers created a huge uproar. Since, South Africa has instructed the WFP to purchase South African maize with the cash that it donates. End Comment.

Market Access versus Subsidies -----

12. (U) Muller said that the "crunch" was on the EU to provide greater market access and to reduce its domestic agricultural subsidies. He criticized the United States for having submitted a proposal that would "not bring about a reduction in overall domestic support." He later elaborated to Econoff that this assessment was based upon an analysis performed by the Brazilian Institute for the International Trade Negotiations, which he later shared via e-mail. In short, the analysis adds amber and blue boxes to de minimis subsidies to conclude that under the U.S. proposal, the United States could actually spend more on subsidies, if it wanted to, than it currently did. (Note: this analysis has been shared with first points of contact at USTR and USDA via e-mail from post.)

13. (U) Both Carim and Muller said that matching agricultural tariffs against non agricultural tariffs would not resolve the impasse in negotiations; there had to be more movement on agricultural subsidies for the Doha Round to progress. Muller said that other issues such as phytosanitary standards and technical barriers to trade also had to be addressed. In addition, negotiating parties had to look at supply side measures to stimulate trade capacity in developing countries. On cotton, Muller admitted that South Africa had not done enough to support the African position.

14. (U) Johan van der Merwe of the Sugar Industry said that the South African sugar industry received very little domestic support from the government. The industry was essentially competing with the rest of the world. In this respect, its offensive interest was to remove subsidies and lower tariffs in other countries, and its defensive interest was to seek protection from subsidized imports. Van der Merwe commented that no one seemed to be willing to make any real cuts to applied tariffs at this time.

15. (U) While the U.S. proposal was the first one out of the

chute, Carim criticized it as "insufficient" and "very late in coming." He described the G-20 proposal as "more reasonable" and, in the face of EU limitations, was probably the "closest approximation of what could actually be done" in agricultural negotiations. Carim said that the strength of the G-20 was that it was able to balance offensive and defensive interests, and represented the middle ground for the WTO as a whole. Carim thought that high-level political intervention was needed to move negotiations forward, and generally tried to lower expectations for Hong Kong Ministerial in December.

16. (U) Carim said that the United States and G-20 proposals had clearly caught the EU "offguard" and "backfooted." Carim described the EU agricultural proposal as a "very, very poor offer." He said that the EU had demanded extensive cuts on industrial tariffs, especially from larger developing countries, and insisted on numerical targets in services. He said that the proposal did not take into account developing country realities, and made additional demands concerning geographical indications. Carim added that the "strange part" of the EU's proposal was that it was presented as a final offer, almost as if to shift the blame elsewhere. "If one took a Machiavellian view," he added, "(the offer) seemed designed to destroy the negotiations." He said that everyone needed to be aware of the media spin that countries were giving to the negotiations, and that "responsibility for failure must be part of the negotiations."

The G-20 and Special and Differential Treatment

17. (U) Carim declared that the larger developing countries were willing to make commitments, but only in "alignment with special and differential treatment, commensurate with institutional capacity and the level of economic development." In this vein, he complained that the development content of the round had been eroded, partly because developing countries could not arrive at a common view, and partly because developed countries had seized on this to promote the notion that least developed countries, having extensive preferential access to developed country markets, should focus on obtaining greater market access from the larger developing countries like Brazil and India. Carim said that "while no one said it, they also meant South Africa."

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